

MISSOURI DEPARTMENT OF TRANSPORTATION

Basic Financial Statements

June 30, 2004

(With Independent Auditors' Report Thereon)

MISSOURI DEPARTMENT OF TRANSPORTATION

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Independent Auditors' Report

Missouri Highway and Transportation Commission:

We have audited the accompanying financial statements of the governmental activities, the State Highways and Transportation Department Fund, the State Road Fund, and the aggregate remaining fund information of the Missouri Department of Transportation (the Department) as of and for the year ended June 30, 2004, which collectively comprise the Department's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements of the Missouri Department of Transportation are intended to present the financial position and the changes in the financial position and cash flows, where applicable, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Missouri that is attributable to the transactions of the Department. Accordingly, the financial statements do not include financial data for the Department's legally separate component units or other transactions of the State of Missouri that are not attributable to the Department. They do not purport to, and do not, present fairly the financial position of the State of Missouri as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 12, the Division of Highway Safety was combined into the Department effective July 1, 2003.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the State Highways and Transportation Department Fund, the State Road Fund, and the aggregate remaining fund information of the Department, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also provided our report dated September 10, 2004 on our consideration of the Department's internal controls over financial reporting and on our tests of

its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 41 through 43, respectively, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The accompanying combining statements are supplementary information presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

Kansas City, Missouri
September 10, 2004

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

The management of the Missouri Department of Transportation (MoDOT or the Department) provides this discussion and analysis of MoDOT's financial performance during the fiscal year ended June 30, 2004 (FY04). Readers should consider this information in conjunction with the information furnished in the financial statements. The comparisons to the prior year are meaningful in explaining MoDOT's financial position and results of operations.

In evaluating the condition and performance of the Department, management focuses on its mission and strategic plan. The Department's mission is "taking care of and improving Missouri's transportation system."

Highlights of the year in review include:

- The financial position of the Department improved by \$68 million during FY04.
- The Department issued bonds totaling \$254 million in the fall of 2003.
- Maintenance spending increased by \$30 million. Almost all other significant areas including construction, administration, fleet, facilities and information systems showed a decrease in spending.
- Federal highway reimbursement decreased in FY04. This was due to ongoing Congressional debates over future funding formulas.
- The Department began a bond program in FY01 issuing bonds for road and bridge construction. At the end of FY04 the balance of bonds outstanding was \$861 million. Interest expense on bonds totaled \$38 million in FY04.

Missouri's constitution and statutes require all monies received by the Department from highway user fees and taxes be restricted for roads and bridges. Other transportation modes (aviation, rails, transit, and waterways) receive funding from dedicated and non-dedicated funds.

Basic Financial Statements Descriptions

As required by accounting standards generally accepted in the United States of America, this annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements (including notes to the basic financial statements), and other required supplementary information.

The basic financial statements include two kinds of statements that present different views of the Department:

- 1) **Government-wide Financial Statements** report information about MoDOT as a whole using accounting methods similar to those used by private-sector companies by using the economic resources measurement focus and accrual basis of accounting. These statements provide both long-term and short-term information about the Department's overall financial status. Therefore, over time, increases or decreases in the net assets are an indicator of whether the Department's financial health is improving or deteriorating. There are two government-wide statements:
 - The *Statement of Net Assets* includes all of the Department's assets and liabilities.
 - The *Statement of Activities* accounts for all of the current year's revenues and expenses, regardless of when cash is received or paid.

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

2) **Fund Financial Statements** provide more detailed information than the government-wide statements about MoDOT's most significant funds—not the Department as a whole. Funds are created by state law and are accounting devices that the state uses to keep track of specific sources of revenue and spending. The Department uses two types of funds:

- *Governmental Funds*—Most of MoDOT's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that help a reader determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the differences between them.
- *Proprietary Funds*—MoDOT uses internal service funds (one kind of proprietary fund) to report activities for the Missouri Highways and Transportation Commission's Self-Insurance Plan and the MoDOT and State Highway Patrol Medical and Life Insurance Plan. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

Notes to the basic financial statements that interpret and explain some of the information in the basic financial statements and provide more detailed data are included for the government-wide and fund financial statements.

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Condensed Information Government-wide Financial Statements

Net Assets

MoDOT's net assets were \$24,464 million at the end of FY04, an increase of \$68 million over the beginning FY03 balance of \$24,396 million. The FY03 fund balance was increased by a restatement of \$1 million due to the transfer of the Division of Highway Safety from the Department of Public Safety, pursuant to an executive order signed by the Governor.

Capital assets comprise 97% of total assets. Capital assets consist of roads, bridges, buildings, land for the roads and bridges, vehicles, and equipment. Long-term liabilities are the largest component of total liabilities (87%) and are comprised mainly of \$861 million outstanding bonds.

- Capital assets increased by \$262 million. Nondepreciable assets, including infrastructure in progress, construction in progress, and land, increased by \$212 million. Depreciable assets increased by \$50 million. Capital assets are further detailed in this discussion and in note 6 of the notes to the basic financial statements.
- Long-term liabilities increased by \$229 million. This increase is primarily the result of the issuance of \$254 million in Series A 2003 State Road bonds, less the FY04 debt service payments of \$23.5 million. The Missouri Highways and Transportation Commission is authorized to issue bonds for the purpose of highway construction and construction engineering. Long-term liabilities are further detailed in this discussion and in note 7 of the notes to the basic financial statements.

MoDOT's Net Assets (Summarized)

(In millions of dollars)

| | FY04 | FY03, As restated | Incr/(Decr) |
|---|---------------|------------------------------|--------------------|
| Current and other assets | \$ 728 | 719 | 9 |
| Capital assets, net | <u>24,967</u> | <u>24,705</u> | <u>262</u> |
| Total assets | <u>25,695</u> | <u>25,424</u> | <u>271</u> |
| Long-term liabilities | \$ 1,065 | 836 | 229 |
| Other liabilities | <u>166</u> | <u>192</u> | <u>(26)</u> |
| Total liabilities | <u>1,231</u> | <u>1,028</u> | <u>203</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | \$ 23,953 | 23,937 | 16 |
| Restricted for highway and transportation | 435 | 404 | 31 |
| Restricted for debt service | <u>76</u> | <u>55</u> | <u>21</u> |
| Total net assets | <u>24,464</u> | <u>24,396</u> | <u>68</u> |

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Changes in Net Assets

Comparisons of activities from year to year can be used as an indicator of a government's financial position and are included in the following section. The program area of motorist assist was segregated in the state's appropriation process for FY04. In prior years, those expenses were included in the maintenance program. Federal government reimbursements (40%) and fuel taxes (29%) are the largest sources of Department revenues. Depreciation of capital assets, including infrastructure depreciation, is the largest expense (46%). Maintenance and construction of roads and bridges are other significant program expenses.

MoDOT's Statement of Activities (Summarized)

(in millions of dollars)

| | <u>FY04</u> | <u>FY03, As restated</u> | <u>Incr/(Decr)</u> |
|--|--------------------|-------------------------------------|---------------------------|
| Program revenues: | | | |
| Licenses, fees, and permits | \$ 269 | 273 | (4) |
| Cost reimbursement/misc. | 75 | 80 | (5) |
| Federal government | 703 | 779 | (76) |
| Other | 24 | 22 | 2 |
| General revenues: | | | |
| Fuel tax | 515 | 498 | 17 |
| Sales and use tax | 180 | 178 | 2 |
| Other | (4) | 36 | (40) |
| Total revenues | 1,762 | 1,866 | (104) |
| Program expenses: | | | |
| Administration | 29 | 37 | (8) |
| Fleet, facilities, and information systems | 44 | 54 | (10) |
| Maintenance | 312 | 282 | 30 |
| Construction | 198 | 223 | (25) |
| Multimodal operations | 47 | 47 | — |
| Motorist assist | 3 | — | 3 |
| Interest expense | 39 | 33 | 6 |
| Other state agencies | 166 | 165 | 1 |
| Insurance | 84 | 80 | 4 |
| Depreciation | 772 | 913 | (141) |
| Total program expenses | 1,694 | 1,834 | (140) |
| Change in net assets | 68 | 32 | 36 |
| Net assets, beginning | 24,396 | 24,364 | |
| Net assets, ending | \$ 24,464 | 24,396 | |

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Assessment of Overall Financial Position and Results of Operations

- MoDOT's assets exceeded its liabilities at June 30, 2004 by \$24.5 billion (presented as net assets). Of this amount, \$24 billion was "invested in capital assets, net of related debt."
- Total revenues for the year were \$1.8 billion, which is a decrease of \$104 million from the FY03 level.
 - The federal government revenue decreased because Missouri's FY04 federal highway apportionments were delayed due to Congressional debates over funding formulas. There was an increase of \$13 million in federal grants due to the addition of the Division of Highway Safety to MoDOT.
 - Other general revenues decreased by \$40 million. The amount of other general revenues in FY03 included \$13 million classified as donated assets from the value of fiber optic cable transferred to MoDOT as part of a settlement with the Department's contractor responsible for installation of fiber optic cable for the intelligent transportation communication systems in the State.

The Department's share of market value fluctuations related to investments with the state treasury and interest earned on fund balances is also captured in other general revenues. In FY04, that category decreased by \$29.7 million as a result of the market value loss and reduction of interest earned. The percentage of state funds invested in FY04 decreased from the previous year by 3.2%. Market value fluctuations are not realized until the investment is sold. The total face value of the bonds plus interest will be received if the investment is held to maturity. The state's portfolio includes bonds in a fixed-income portfolio. In a rising interest rate environment, the value of bonds will often fall below their amortized cost or book value. This was experienced at the end of FY04.

- Total program expenses for the year were \$1.7 billion. This compares to total program expenses in the previous year of \$1.8 billion. Although the total program expense fluctuation was minimal, there was considerable fluctuation in individual programs. The most noteworthy increase occurred in the maintenance program.
 - The \$30 million increase in maintenance spending is consistent with the Department's strategic priority to take better care of the assets it owns. During FY04, the Department increased spending for maintenance materials, equipment and supplies. In addition, maintenance spending for pavement repair, asphalt resurfacing, striping, guardrail and guard cable replacement, and bridge repairs increased.
 - While maintenance spending increased, most other significant program areas within the Department decreased. Construction decreased by \$25 million. This reduction is the result of a combination of factors. Spending for design and bridge consultants was where the largest reductions occurred.
 - The reduction of \$141 million in depreciation is a result of a significant amount of infrastructure assets becoming fully depreciated in both the current and previous fiscal year.

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Fund Balance Analysis and Availability

At the end of the fiscal year, MoDOT's governmental funds reported a combined fund balance of \$516 million, an increase of \$16 million over FY03. It should be noted that actual expenditures exceeded normal revenues by \$247 million. Included in actual expenditures are monies spent for construction of roads and bridges. One of the sources of funds for these expenditures is \$254 million bond proceeds reported as other financing sources. Scheduled repayment of bond principal and interest for FY05 totals \$76 million.

Analysis of Budget to Budget and Budget to Actual

(Variations from Budgetary Comparison Schedules)

An appropriation classification review was conducted of all job title codes and a determination was made on proper classification based upon primary job duties. When deemed appropriate, budget for personal service, fringe benefits, and expense and equipment were reclassified. These changes were effective July 1, 2003. Amounts are identified in the following sections.

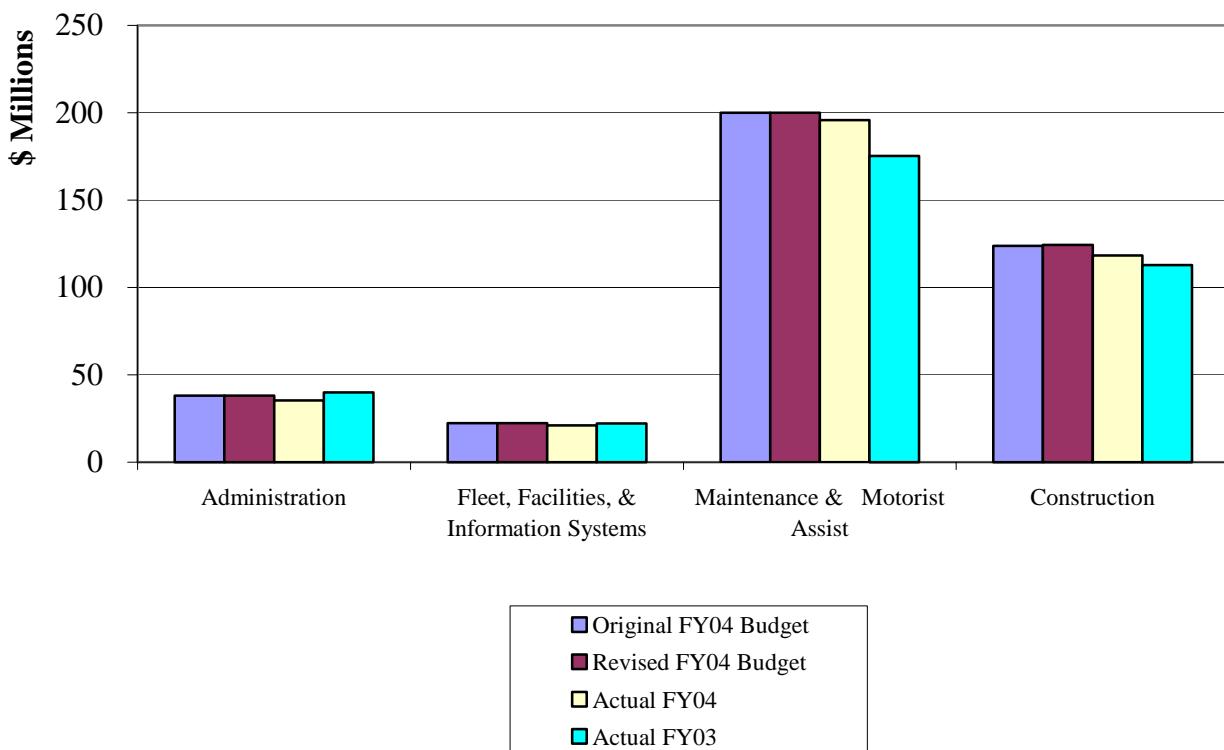
MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Personal Services and Fringe Benefits

Personal service and fringe benefit expenditures for FY04 were \$20 million more than in FY03. Personal services increased by \$5.0 million. Consistent with the state of Missouri, employees earning less than \$40,000 annually received a \$600 per year general adjustment increase. The remaining increase is a result of career ladder promotions and vacancy filling. Fringe benefits increased by \$15.0 million. Fringe benefits include contributions for retirement, medical and life insurance, workers' compensation, deferred compensation, and the employer's share of social security and medicare taxes. The appropriation reclassification reallocated \$8.9 million.



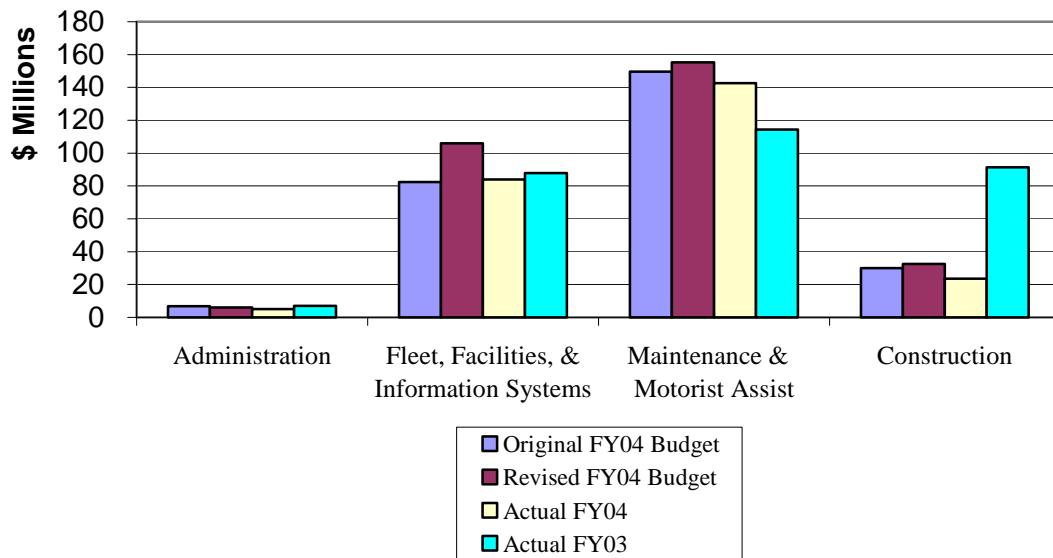
MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Expense and Equipment

Although fleet, facilities, and information systems' expense and equipment (E&E) ended the year under budget by \$22 million, much of that has been encumbered and will be spent in FY05. Maintenance expenditures are \$28 million above the prior year. The appropriation reclassification reallocated \$6.3 million. The FY03 actual amount for construction included \$62.5 million for design and bridge consultants. Beginning in FY04, those expenses are included in construction program specific distributions (next section).



Program Specific Distribution

The majority of expenditures in this area are for contractor payments. Also included are federal pass-throughs to local entities, right-of-way purchases, and innovative finance expenses. Beginning in FY04, design and bridge consultant expenses are also classified as construction program specific distributions. FY04 expenditures for those consultants totaled to \$36 million.

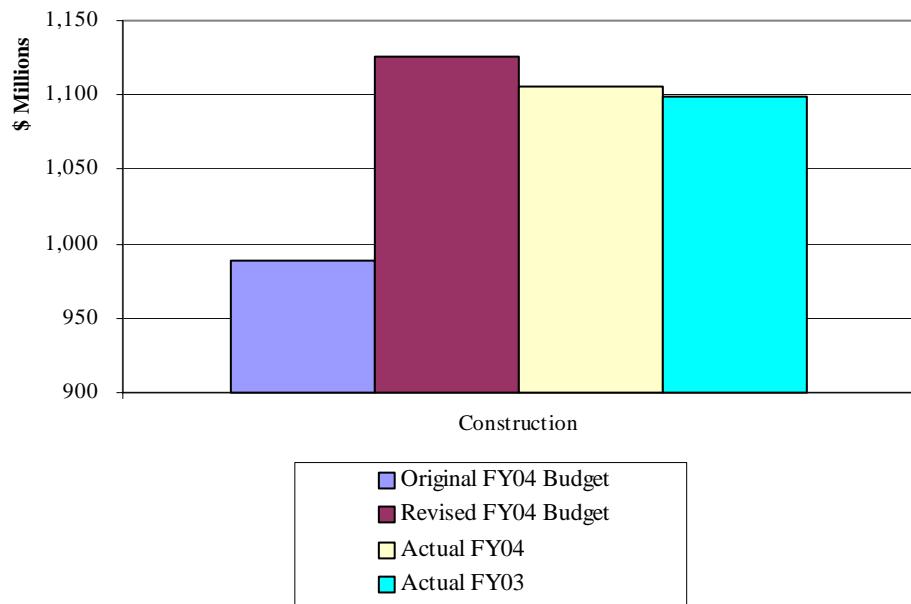
The budget for program-specific expenditures was increased by \$136.3 million for land purchases authorized in previous years but not processed until FY04, local entities spending their federal pass-throughs sooner than anticipated, and contractor payments greater than anticipated due to favorable construction weather. Total program-specific distribution expenditures are \$19.8 million below the revised budgeted amount. The majority is attributable to right-of-way purchases not finalized at year-end.

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

The total construction program-specific expenditures for FY04 are \$1.1 billion. These expenditures include \$914.5 million for contractor payments, \$86.3 million for federal pass-through, \$52.5 million for right-of-way land purchases, \$36.0 million for design and bridge consultants, and \$16.6 million for innovative financing payments.



Capital Assets and Debt Administration

Capital Assets

At the end of 2004, the Department had invested \$25 billion in capital assets, net of depreciation, including equipment, buildings, facilities, roads, bridges, and land. More detailed information about the Department's capital assets is presented in notes 1 and 6 of the notes to the basic financial statements. This year's major capital asset additions, deletions, and retirements included (dollars in thousands):

| | July 1, 2003 balance, as restated | Additions | Deletions/ retirements | June 30, 2004 balance |
|--|--|------------------|-----------------------------------|----------------------------------|
| Land and improvements | \$ 1,950,140 | 41,075 | (3,984) | 1,987,231 |
| Buildings | 155,132 | 35,244 | (297) | 190,079 |
| Equipment and vehicles | 370,987 | 40,905 | (15,470) | 396,422 |
| Infrastructure | 36,638,118 | 745,178 | (70,460) | 37,312,836 |
| Construction and infrastructure in progress | 2,848,925 | 988,911 | (812,439) | 3,025,397 |
| Accumulated depreciation | (17,258,124) | (771,756) | 84,632 | (17,945,248) |
| Total | \$ 24,705,178 | 1,079,557 | (818,018) | 24,966,717 |

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Long-term Debt

At the end of 2004, the Department had \$1 billion in outstanding long-term debt, including \$861 million in outstanding bonds. More detailed information about the Department's long-term liabilities is presented in note 7 of the notes to the basic financial statements.

The Department's bonds are rated AA by Standard and Poor's Rating Service and Fitch Rating Service and Aa2 by Moody's Investor Service, Inc. This is the second highest possible rating and has been maintained by the Department since the inception of the bonding program in 2000. The Department is limited by statute to a total debt of \$2.25 billion.

Current Conditions Affecting Future Financial Position or Results of Operations

- State revenues are projected to increase 1.8% during FY05 over FY04 revenues. This assumption is based on historical trend data.
- Federal highway reimbursements are projected to increase from approximately \$679.7 million in FY04 to approximately \$856.0 million for FY05. Based on historical trends, the Department assumes 90% of FY05 federal funding will be available for project obligations. This projection assumes a transportation act will be in place for FY05 and the receipt of remaining FY04 federal reimbursements.
- Fringe benefits are projected to increase approximately 12.1% for FY05, primarily due to increasing medical plan costs and retirement contributions.
- The legislature approved an annual pay increase of \$1,200 for all state employees effective July 1, 2004.
- In FY04 the department established a line of credit with the Missouri Transportation Finance Corporation (the Corporation). The Corporation was created under Missouri General not-for-profit Corporation Law to provide financing and other assistance to public and private entities for highway and transportation projects in the State of Missouri. The amount of the line of credit available is up to the total uncommitted balance of the Corporation accounts. The line of credit was established to finance TEA 21-eligible projects in the event of federal reimbursement delays. No advances have been made.

Contacting the Department's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of MoDOT's finances and to demonstrate the Department's accountability for the money it receives. Questions about this report or requests for additional financial information should be sent to the Controller's Division, Missouri Department of Transportation, P.O. Box 270, Jefferson City, MO 65102.

MISSOURI DEPARTMENT OF TRANSPORTATION

Exhibit A

Statement of Net Assets

June 30, 2004

| | Governmental activities |
|---|------------------------------------|
| Assets | |
| Cash and investments | \$ 421,903,652 |
| Miscellaneous receivables | 33,597,703 |
| Due from federal government | 39,979,643 |
| Taxes receivable—due from other funds | 120,097,531 |
| Restricted cash and investments | 76,288,182 |
| Inventory | 30,576,758 |
| Loans receivable | 2,499,674 |
| Bond issue costs | 3,170,143 |
| Capital assets: | |
| Assets not being depreciated | 5,001,148,896 |
| Assets being depreciated, net | <u>19,965,568,482</u> |
| | <u>25,694,830,664</u> |
| Total assets | <u>25,694,830,664</u> |
| Liabilities | |
| Accounts payable | 151,758,425 |
| Contract retainage | 4,796,531 |
| Unearned revenue | 8,569,163 |
| Long-term obligations: | |
| Due within one year | 103,483,702 |
| Due in more than one year | <u>961,862,679</u> |
| | <u>1,230,470,500</u> |
| Total liabilities | <u>1,230,470,500</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 23,952,946,191 |
| Restricted for: | |
| Debt service | 76,288,182 |
| Highway and transportation | <u>435,125,791</u> |
| | <u>24,464,360,164</u> |

See accompanying notes to basic financial statements.

Exhibit B**MISSOURI DEPARTMENT OF TRANSPORTATION****Statement of Activities**

Year ended June 30, 2004

| | Governmental activities |
|--|------------------------------------|
| Program expenses: | |
| Administration | \$ 29,318,472 |
| Fleet, facilities, and information systems | 43,603,286 |
| Maintenance | 312,021,799 |
| Construction | 197,760,891 |
| Multimodal operations | 46,880,343 |
| Motorist assist | 2,943,191 |
| Interest expense | 39,275,763 |
| Other state agency | 166,270,540 |
| Self-insurance | 15,916,237 |
| Medical and life insurance | 68,193,519 |
| Depreciation expense | <u>771,756,438</u> |
| Total program expenses | <u>1,693,940,479</u> |
| Program revenue: | |
| Licenses, fees, and permits | 268,829,963 |
| Intergovernmental cost reimbursement/miscellaneous | 74,522,510 |
| Interest | 75,828 |
| Federal government—operating | 43,049,831 |
| Federal government—capital | 660,350,019 |
| Employee premiums | <u>23,908,942</u> |
| Total program revenue | <u>1,070,737,093</u> |
| Net expense of program | <u>(623,203,386)</u> |
| General revenues and transfers: | |
| Fuel tax | 515,047,887 |
| Sales and use tax | 180,213,326 |
| Investment and interest | 9,058,760 |
| Donated assets | 161,560 |
| Loss on sale of assets | (2,238,377) |
| Net decrease in fair value of investments | (21,904,465) |
| Transfers related to appropriations | <u>11,298,715</u> |
| Total general revenues and transfers | <u>691,637,406</u> |
| Change in net assets | 68,434,020 |
| Net assets at beginning of year, as restated (note 12) | <u>24,395,926,144</u> |
| Net assets at end of year | <u>\$ 24,464,360,164</u> |

See accompanying notes to basic financial statements.

MISSOURI DEPARTMENT OF TRANSPORTATION

Balance Sheet

Governmental Funds

June 30, 2004

| Assets | State Highways and Transportation Department Fund | State Road Fund | Nonmajor governmental funds | Total governmental funds |
|--|---|-----------------------|-----------------------------------|--------------------------------|
| Cash and investments | \$ 30,160,368 | 318,979,128 | 10,105,744 | 359,245,240 |
| Restricted cash and investments | — | 76,288,182 | — | 76,288,182 |
| Miscellaneous receivables | 197,146 | 32,898,700 | 88,784 | 33,184,630 |
| Due from federal government | — | 35,858,862 | 4,120,780 | 39,979,642 |
| Taxes receivable—due from other funds | 104,186,876 | 15,502,862 | 407,793 | 120,097,531 |
| Due from agency fund | — | 175,074 | — | 175,074 |
| Due from other funds | — | 46,255 | — | 46,255 |
| Loans receivable | — | — | 2,499,674 | 2,499,674 |
| Inventory | 126,231 | 30,450,527 | — | 30,576,758 |
| Total assets | \$ 134,670,621 | 510,199,590 | 17,222,775 | 662,092,986 |
| Liabilities and Fund Balance | | | | |
| Liabilities: | | | | |
| Vouchers payable | \$ 23,189,166 | 74,453,434 | 4,232,258 | 101,874,858 |
| Contract retainage | — | 4,796,531 | — | 4,796,531 |
| Deferred revenue | — | 39,475,640 | 14,680 | 39,490,320 |
| Due to other funds | — | — | 46,255 | 46,255 |
| Total liabilities | 23,189,166 | 118,725,605 | 4,293,193 | 146,207,964 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Loans receivable | — | — | 2,499,674 | 2,499,674 |
| Inventory | 126,231 | 30,450,527 | — | 30,576,758 |
| Unreserved | 111,355,224 | 361,023,458 | 10,429,908 | 482,808,590 |
| Total fund balance | 111,481,455 | 391,473,985 | 12,929,582 | 515,885,022 |
| Total liabilities and fund balance | \$ 134,670,621 | 510,199,590 | 17,222,775 | 662,092,986 |
| Total fund balance from fund statement above | | | | \$ 515,885,022 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | | |
| Capital assets, net of depreciation of \$771,756,438, used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | | | 24,966,717,378 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | | | | 37,145,003 |
| Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in the statement of net assets. | | | | 6,788,996 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. | | | | (1,062,176,235) |
| | | | | \$ 24,464,360,164 |

See accompanying notes to basic financial statements.

MISSOURI DEPARTMENT OF TRANSPORTATION

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2004

| | State Highways and Transportation Department Fund | State Road Fund | Nonmajor funds | Total |
|--|--|--------------------------------|---------------------------|----------------------|
| Revenues: | | | | |
| Fuel tax | \$ 514,589,096 | 93,168 | 365,623 | 515,047,887 |
| Sales and use tax | 43,182,032 | 133,142,926 | 3,888,368 | 180,213,326 |
| Licenses, fees, and permits | 163,092,511 | 103,872,130 | 1,865,322 | 268,829,963 |
| Intergovernmental/cost reimbursements/miscellaneous | 2,518,611 | 69,979,997 | 1,393,124 | 73,891,732 |
| Investment and interest | 1,276,863 | 6,355,626 | 456,947 | 8,089,436 |
| Federal government | — | 660,350,019 | 43,049,831 | 703,399,850 |
| Total revenues | 724,659,113 | 973,793,866 | 51,019,215 | 1,749,472,194 |
| Expenditures: | | | | |
| Administration | 40,450,728 | 2,182 | — | 40,452,910 |
| Fleet, facilities, and information systems | 21,414,652 | 80,718,384 | — | 102,133,036 |
| Maintenance | 194,289,345 | 138,663,599 | 14,787,081 | 347,740,025 |
| Construction | 118,188,873 | 1,083,269,651 | — | 1,201,458,524 |
| Multimodal operations | 216,354 | 8,722 | 46,768,626 | 46,993,702 |
| Motorist assist | 2,634,398 | 322,382 | — | 2,956,780 |
| Debt service | — | 73,543,958 | — | 73,543,958 |
| Other state agency | 180,743,298 | — | 108,107 | 180,851,405 |
| Total expenditures | 557,937,648 | 1,376,528,878 | 61,663,814 | 1,996,130,340 |
| Excess of revenues over (under) expenditures | 166,721,465 | (402,735,012) | (10,644,599) | (246,658,146) |
| Other financing sources (uses): | | | | |
| Long-term debt issued | — | 256,277,231 | — | 256,277,231 |
| Premium on bonds | — | 9,559,384 | — | 9,559,384 |
| Proceeds from capital leases | 71,972 | 3,239,653 | — | 3,311,625 |
| Proceeds from the sale of capital assets | — | 3,341,245 | — | 3,341,245 |
| Transfers in | — | 166,206,147 | — | 166,206,147 |
| Transfers out | (166,206,147) | — | — | (166,206,147) |
| Net decrease in fair value of investments | (1,683,479) | (19,009,769) | (208,312) | (20,901,560) |
| Transfers related to appropriations | — | — | 11,298,715 | 11,298,715 |
| Total other financing sources (uses) | (167,817,654) | 419,613,891 | 11,090,403 | 262,886,640 |
| Excess of revenues and other financing sources under (over) expenditures and other uses | (1,096,189) | 16,878,879 | 445,804 | 16,228,494 |
| Fund balances, beginning of year, as restated (note 12) | 112,577,644 | 374,595,106 | 12,483,778 | 499,656,528 |
| Fund balances, end of year | \$ 111,481,455 | 391,473,985 | 12,929,582 | 515,885,022 |

See accompanying notes to basic financial statements.

Exhibit E**MISSOURI DEPARTMENT OF TRANSPORTATION****Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities**

Year ended June 30, 2004

| | |
|--|---------------|
| Net change in fund balances—total governmental funds | \$ 16,228,494 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,038,875,049) exceeded depreciation (\$771,756,438) in the current period. | 267,118,611 |
| In the statement of activities, only the gain on the sale of the assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the assets sold. | (5,579,649) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (1,045,823) |
| Proceeds from the issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments. | (214,399,016) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | (6,515,078) |
| Internal service funds are used by management for the medical and life insurance and self-insurance plans. The net revenue (expense) of internal service funds is reported with governmental activities. | 12,626,481 |
| Change in net assets of governmental activities | \$ 68,434,020 |

See accompanying notes to basic financial statements.

Exhibit F**MISSOURI DEPARTMENT OF TRANSPORTATION**

Statement of Net Assets

Proprietary Funds

June 30, 2004

| | Internal service funds |
|----------------------------------|-----------------------------------|
| Assets | |
| Cash | \$ 13,870,242 |
| Government-sponsored investments | 48,788,170 |
| Miscellaneous receivables | 237,999 |
| Total assets | <u>62,896,411</u> |
| Liabilities | |
| Vouchers payable | 1,685,622 |
| Pending self-insurance claims | 26,355,945 |
| Deferred revenue | 6,223,848 |
| Incurred but not reported claims | 21,842,000 |
| Total liabilities | <u>56,107,415</u> |
| Net Assets | |
| Unrestricted net assets | \$ <u>6,788,996</u> |

See accompanying notes to basic financial statements.

Exhibit G

MISSOURI DEPARTMENT OF TRANSPORTATION

Statement of Activities

Proprietary Funds

Year ended June 30, 2004

| | <u>Internal service funds</u> |
|---|-----------------------------------|
| Operating revenues: | |
| Insurance premiums: | |
| Highway workers' compensation | \$ 10,783,137 |
| Highway patrol workers' compensation | 1,185,000 |
| Highway fleet vehicle liability | 1,880,883 |
| General liability | 3,510,572 |
| Contributions: | |
| State | 53,748,827 |
| Member | 23,908,942 |
| Other | <u>1,614,127</u> |
| Total operating revenues | <u>96,631,488</u> |
| Operating expenses: | |
| Program | 1,473,913 |
| Self-insurance claims: | |
| Highway workers' compensation | 7,726,798 |
| Highway patrol workers' compensation | 2,089,349 |
| Highway fleet vehicle liability | 998,343 |
| Highway general liability | 3,627,834 |
| Medical and life: | |
| Insurance premium | 5,136,810 |
| Claims | 48,030,945 |
| Administrative service | 2,194,469 |
| Prescription drugs | 12,641,598 |
| Professional fees | 131,404 |
| Other | <u>58,293</u> |
| Total operating expenses | <u>84,109,756</u> |
| Operating income | <u>12,521,732</u> |
| Nonoperating revenues: | |
| Interest income | 1,107,654 |
| Net decrease in fair value of investments | <u>(1,002,905)</u> |
| Total nonoperating revenues | <u>104,749</u> |
| Net income | 12,626,481 |
| Net assets (accumulated deficit) at beginning of year | <u>(5,837,485)</u> |
| Net assets at end of year | <u>\$ 6,788,996</u> |

See accompanying notes to basic financial statements.

Exhibit H**MISSOURI DEPARTMENT OF TRANSPORTATION**

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2004

| | <u>Internal service funds</u> |
|---|-----------------------------------|
| Cash flows from operations: | |
| Receipt from customers | \$ 96,562,553 |
| Payment to suppliers | <u>(80,732,590)</u> |
| | <u>15,829,963</u> |
| Cash flows from investing activities: | |
| Sale of investments | 23,750,500 |
| Purchase of investments | <u>(42,164,366)</u> |
| Interest on investments | <u>1,107,654</u> |
| | <u>(17,306,212)</u> |
| Net cash used in investing activities | <u>(1,476,249)</u> |
| Net decrease in cash and cash equivalents | <u>(1,476,249)</u> |
| Cash at beginning of year | <u>15,346,491</u> |
| Cash at end of year | <u>\$ 13,870,242</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 12,521,732 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Decrease in receivables | (68,936) |
| Increase in accounts payable | 2,477,842 |
| Increase in deferred revenue | <u>899,325</u> |
| | <u>\$ 15,829,963</u> |
| Noncash items impacting recorded assets—decline in fair value of investments | <u>\$ (1,002,904)</u> |

See accompanying notes to basic financial statements.

Exhibit I**MISSOURI DEPARTMENT OF TRANSPORTATION****Statement of Fiduciary Net Assets****Fiduciary Funds**

June 30, 2004

Assets

| | |
|---------------------------|----------------------|
| Cash and cash equivalents | \$ 14,352,122 |
| Investments | 13,350,542 |
| Other | 46,658 |
| Total assets | \$ 27,749,322 |

Liabilities

| | |
|---------------------------------|----------------------|
| Due to other governments | \$ 5,590,017 |
| Advances from other governments | 22,158,305 |
| Other | 1,000 |
| Total liabilities | \$ 27,749,322 |

See accompanying notes to basic financial statements.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The State Highway Department was created in 1913 to act as the state's agent for public roads. The State Highway Commission was created in 1921 with the passage of the Centennial Road Law and was charged with the administration of the network of connecting state highways, including their location, design, construction, and maintenance.

In 1979, the state of Missouri passed a constitutional amendment merging the State Highway Department with the Department of Transportation (the Department). This constitutional amendment gave a newly created Highway and Transportation Commission (the Commission) the authority over all state transportation programs and facilities. The Commission is a bipartisan body of six members appointed by the governor with the consent of the Senate for a term of six years.

In 1996, by legislative action, the Missouri Highways and Transportation Department became the Missouri Department of Transportation (MoDOT). In 2002, several programs from other state agencies were combined into MoDOT. This was the result of legislative action and the governor's executive order, which created the "One-Stop Shop" for motor carrier and railroad operators and overdimension/overweight permitting. As discussed in note 12, in 2003, by the governor's executive order, the Division of Highway Safety was transferred from the Department of Public Safety to MoDOT. This change was part of the Governor's Reorganization Plan of 2003, because both the Division of Highway Safety and MoDOT are engaged in activities related to the state highway system and its safe operation. The Division of Highway Safety works to promote the safe operation of vehicles on or about the highways, roads, and streets of the state.

(a) Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the primary government is financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based on the above criteria, certain legally separate organizations involved in transportation-related projects, such as the Missouri Transportation Finance Corporation, Highway 179 Transportation Corporation, Fulton 54 Transportation Corporation, and the Wentzville Transportation Corporation, are considered component units. The financial statements of these legally separate organizations are not included herein. Because the Department is not legally separate from the state of Missouri, the financial statements of the Department are included in the financial statements of the state of Missouri. The State of Missouri's Comprehensive Annual Financial Report may be obtained by writing to Missouri's Office of Administration.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

(b) Basis of Presentation and Fund Structure

Government-wide Statements. The government-wide statement of net assets and statement of activities report the overall financial activities of the Department, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. The financial activities of the Department consist only of governmental activities, which are primarily supported by taxes and intergovernmental revenues.

The Department creates a single function—Transportation. The statement of activities demonstrates the degree to which the direct expenses of that function are offset by program revenues. Direct expenses are those that are clearly identifiable with the function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of the program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Department's funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department reports the following major governmental funds:

State Highways and Transportation Department Fund—This fund is established by Section 226.200, RSMo to receive revenues derived from the use of state highways. This fund pays the costs incurred to collect that revenue, to administer the Highways and Transportation Commission and the Department of Transportation, to administer and enforce any state motor vehicle laws or traffic regulations, and to provide other related functions.

State Road Fund—This fund is constitutionally established to receive monies from the motor vehicle sales tax, the federal government, transfers from the State Highways and Transportation Department Fund, and any other revenues held by the Department not required to be in another fund. Disbursements consist of costs incurred to construct, improve, and maintain the state highway system.

The Department reports the following additional fund types:

Internal Service Funds—These funds account for the financing of goods or services provided to other departments on a cost-reimbursed basis. These funds are used to account for medical and life insurance coverage of Department personnel and the Highway Patrol along with the self-insurance activities of the Department, including workers' compensation for the Highway Patrol.

Agency Funds—These funds account for monies held on behalf of various political subdivisions and other interested parties and will be used to reimburse the Department for expenditures incurred by the Department on behalf of the previously mentioned parties and to collect and administer

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

international registration license fees and fuel taxes payable to contiguous states, Canadian provinces, and to cities and counties.

(c) *Basis of Accounting*

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange include fuel taxes, sales and use taxes, grants, entitlements, and donations. On an accrual basis, revenues from fuel, sales, and use taxes are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the state of Missouri (the State) considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Sales taxes, licenses, and interest are accrued. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital-asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital lease are recorded as other financing sources.

(d) *Statement of Cash Flows*

Cash and cash equivalents include cash and short-term investments.

(e) *Inventories*

Inventories are valued at cost using the weighted average method. Inventories are recorded as expenditures when purchased and expenses when consumed.

(f) *Interfund Transactions*

The Department has the following types of interfund transactions between Department funds and funds of other State agencies:

Reimbursements—Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers—Flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

(g) Capital Assets

Capital assets, which include property, buildings, equipment, and infrastructure assets, are reported in the governmental activities column in the government-wide financial statements. Infrastructure assets are those assets that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items. The Department capitalizes assets with an expected useful life greater than one year with a cost of greater than \$1,000 for equipment and greater than \$15,000 for buildings and land improvements. No dollar threshold is set for land and infrastructure. Donated capital assets are recorded at their fair market value at the date of the donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets, including infrastructure, are depreciated on the straight-line method over the asset's estimated useful life. There is no depreciation recorded for land and construction in progress. Generally, estimated useful lives are as follows:

| | |
|------------------------------------|----------------|
| Vehicles, machinery, and equipment | 1 to 20 years |
| Buildings and other improvements | 10 to 50 years |
| Infrastructure | 12 to 50 years |

(h) Deferred Revenue

The Department has recorded deferred revenue in the State Road Fund relating to long-term receivables.

(i) Compensated Absences

Under the terms of the Department's personnel policy, Department employees are granted 10 to 14 hours of annual leave per month. Additionally, certain employees can accrue a maximum of 240 hours of compensatory time for unpaid overtime. Employees have accrued annual leave and compensatory time available amounting to \$29,434,854 as of June 30, 2004 that is recorded in the government-wide financial statements. Employees are not paid for accumulated sick leave upon retirement or termination.

(j) Bond Premiums, Discounts, and Issuance Costs

In the government-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources and

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(k) *Reservations of Fund Equity*

Reserves, restrictions, and designations are reported in the various funds to indicate that a portion of the fund balance or net assets is restricted by law or contract for a specific purpose.

(l) *Net Assets*

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt—This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted—This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted—This consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

(m) *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, including accrued liabilities for compensated absences and claims and judgments. Actual results could differ from those estimates.

(n) *Related Party Transactions*

The Department sells petroleum products to various other state agencies. Significant sales related to the Highway Patrol were \$507,341 during the fiscal year.

(o) *Recently Issued Accounting Standards*

In November 2003, the Governmental Accounting Standards Board issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The Department is currently evaluating the impacts of this statement.

(2) *Cash and Investments*

Cash and investments include amounts pooled in the State treasury. Interest income earned on cash and investments pooled in the State Treasury is allocated to the funds based on the respective investment and cash balances.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

Cash—At June 30, 2004, the carrying value of the Department's deposits at the State treasury and third-party financial institutions were \$435,533,422 and \$15,790,244, respectively. The bank balance was \$22,100,807, of which \$102,056 was covered by federal depository insurance and \$21,998,751 was covered by collateral held by a third-party bank under a joint custody agreement. Monies were also deposited in overnight repurchase agreements held by the dealer bank's trust department in the Department's name.

Investments—The Department's investments are reported at fair value. At June 30, 2004, the Department had \$58,617,695 of unregistered government sponsored securities for which the securities are held by a financial institution's trust department in the Department's name.

Interest Rate Risk—The Department minimizes the risk that the market value of pooled cash and investments will fall due to changes in general interest rates by maintaining an effective duration of less than 1.5 years and holding at least 40% of the portfolio's total market value in securities with a maturity of 12 months or less.

Credit Risk—Section 30.270, RSMo authorizes the Department, with certain restrictions, to deposit funds in open accounts, time deposits, certificates of deposit, repurchase agreements, and United States Treasury Bills and notes. Statutes also require collateral pledged to have a fair market value equal to 100% of the funds on deposit, less insured amounts, and the underlying investments must be assigned for the benefit of the Department. Collateral securities must be held by the Department or an independent third party and must be of the kind prescribed by State law and approved by the State Treasurer of Missouri.

Concentration of Credit Risk—The Department diversifies its investments to minimize the risk of loss resulting from excess concentration into a specific maturity, issuer or class of security. The asset allocation is periodically reversed by the State Treasurer.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

At June 30, 2004, the Department's deposits and investments consisted of the following:

| | State Highways and Transportation Department Fund | State Road Fund | Nonmajor funds | Internal service funds | Local fiduciary agency funds |
|---|--|--------------------------------|---------------------------|---------------------------------------|---|
| Cash and investments: | | | | | |
| Cash and investments pooled in the State treasury | \$ 30,160,368 | 318,979,128 | 10,105,744 | — | — |
| Cash deposited with banks | — | — | — | 13,727,244 | 2,063,000 |
| Government-sponsored securities | — | — | — | 48,788,170 | — |
| Repurchase agreements | — | — | — | 142,998 | — |
| | \$ 30,160,368 | 318,979,128 | 10,105,744 | 62,658,412 | 2,063,000 |
| Interest receivable | \$ 197,146 | 968,072 | 8,485 | 222,753 | 46,658 |
| Restricted assets: | | | | | |
| Cash and investments pooled in the State treasury | \$ — | 76,288,182 | — | — | — |
| Government-sponsored securities | — | — | — | — | 9,829,525 |
| Repurchase agreements | — | — | — | — | 15,810,139 |
| | \$ — | 76,288,182 | — | — | 25,639,664 |

At June 30, 2004, the Department's investments had the following maturities:

| Investment type | Fair value | Investment maturities (in years) | | | |
|--------------------------|----------------------|---|-------------------|-------------------|------------------|
| | | Less than 1 | 1 | 2 | 3 or more |
| Repurchase agreements | \$ 15,953,137 | 15,953,137 | — | — | — |
| U.S. Treasury securities | 199,812 | — | 199,812 | — | — |
| U.S. agency securities | 58,417,883 | 9,851,119 | 30,984,424 | 15,116,555 | 2,465,785 |
| Total | \$ 74,570,832 | 25,804,256 | 31,184,236 | 15,116,555 | 2,465,785 |

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

(3) Taxes

Tax revenues for the year ended June 30, 2004 were as follows:

| | State Highways and Transportation Department Fund | State Road Fund | Nonmajor funds | Total |
|---------------------------|---|---------------------------|-------------------------|---------------------------|
| Fuel tax | \$ 514,589,096 | 93,168 | 365,623 | 515,047,887 |
| Vehicle sales and use tax | <u>43,182,032</u> | <u>133,142,926</u> | <u>3,888,368</u> | <u>180,213,326</u> |
| | <u><u>\$ 557,771,128</u></u> | <u><u>133,236,094</u></u> | <u><u>4,253,991</u></u> | <u><u>695,261,213</u></u> |

Taxes are remitted by the Missouri Department of Revenue to the Department subsequent to collection. The Department receives the following taxes:

- **Fuel tax** is paid on the sale of gasoline, aviation fuel used in propelling aircraft with reciprocating engines, and special fuel (primarily diesel fuel and liquefied petroleum gas) authorized by Sections 142.010 – 142.350; 155.080 and 155.090; and 142.362 – 142.621, RSMo, respectively. The tax rate on gasoline and special fuels is \$0.17 per gallon. The Department receives 75% of the first \$0.11 and 70% of the next \$0.06. The remaining tax is distributed to cities and counties. The tax rate on aviation fuel is \$0.09 per gallon.
- **Vehicle sales and use taxes** are paid on the purchase of any new or used motor vehicle or trailer, on vehicles purchased out of state and titled in Missouri, or a tax on the sale of a vehicle between individuals within Missouri. The taxes are authorized by Sections 144.070 and 144.440, RSMo. The general sales tax rate is 3% and Proposition C tax (Section 144.701, RSMo) is 1% for a total of 4%. Of the 4%, the Department receives 75% of 50% of the tax. The remaining 25% is distributed to cities and counties. The Department receives 100% of the 3% general use tax and 75% of the Proposition C use tax, and the other 25% is distributed to cities and counties.

(4) Interfund Transactions

Transfers for the year are:

| | Transfers in | Transfers out |
|---|------------------------------|---------------------------|
| State Highways and Transportation Department Fund | \$ — | 166,206,147 |
| State Road Fund | <u>166,206,147</u> | <u>—</u> |
| | <u><u>\$ 166,206,147</u></u> | <u><u>166,206,147</u></u> |

The Department is required by State law to transfer any unspent monies in the State Highways and Transportation Department Fund to the State Road Fund.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

Amounts due to/from other funds at year end were as follows:

| | <u>Due to</u> | <u>Due from</u> |
|-----------------|----------------------|----------------------|
| Nonmajor funds | \$ — | 46,255 |
| State Road Fund | <u>46,255</u> | — |
| | <u><u>46,255</u></u> | <u><u>46,255</u></u> |

The due to/from the State Road Fund and nonmajor funds represent reimbursements for expenditures related to modes of transportation other than highways.

(5) Receivables

Receivables at June 30, 2004 were as follows:

| Type | State Highways and Transportation Department Fund | State Road Fund | Nonmajor funds | Internal Service Funds | Total | Due within a year |
|--------------------|---|-----------------------|-------------------|------------------------------|--------------------|-------------------------|
| Federal government | \$ — | 35,858,862 | 4,120,780 | — | 39,979,642 | 39,979,642 |
| Taxes | 104,186,876 | 15,502,862 | 407,793 | — | 120,097,531 | 120,097,531 |
| Reimbursements | — | 30,966,990 | 73,409 | — | 31,040,399 | 19,973,405 |
| Interest | 197,146 | 1,931,710 | 15,375 | 222,753 | 2,366,984 | 2,366,984 |
| Contributions | — | — | — | 15,246 | 15,246 | 15,246 |
| Loans | — | — | 2,499,674 | — | 2,499,674 | 389,745 |
| Total | \$ 104,384,022 | 84,260,424 | 7,117,031 | 237,999 | 195,999,476 | 182,822,553 |

The federal government receivable represents funds to be received on federally participating projects. Loans receivable represent loans to the cities and counties for nonhighway-related projects.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

(6) Capital Assets

Changes in capital assets are summarized below:

| | Balances July 1, 2003, as restated | Additions | Deletions/ retirements | Balances June 30, 2004 |
|--|---|-----------------------------|-----------------------------------|---------------------------------------|
| Nondepreciable capital assets: | | | | |
| Land | \$ 1,940,788,046 | 38,948,759 | 3,984,362 | 1,975,752,443 |
| Construction in progress | 284,981,889 | 63,188,416 | 67,254,289 | 280,916,016 |
| Infrastructure in progress | <u>2,563,942,755</u> | <u>925,722,541</u> | <u>745,184,859</u> | <u>2,744,480,437</u> |
| Total nondepreciable capital assets | <u>4,789,712,690</u> | <u>1,027,859,716</u> | <u>816,423,510</u> | <u>5,001,148,896</u> |
| Depreciable capital assets: | | | | |
| Land improvements | 9,352,353 | 2,126,090 | — | 11,478,443 |
| Buildings | 155,132,409 | 35,244,121 | 296,901 | 190,079,629 |
| Equipment | 225,588,613 | 32,447,317 | 11,291,664 | 246,744,266 |
| Vehicles | 145,397,728 | 8,458,396 | 4,178,171 | 149,677,953 |
| Infrastructure | <u>36,638,118,193</u> | <u>745,178,557</u> | <u>70,460,293</u> | <u>37,312,836,457</u> |
| Total depreciable capital assets | <u>37,173,589,296</u> | <u>823,454,481</u> | <u>86,227,029</u> | <u>37,910,816,748</u> |
| Accumulated depreciation—land improvements | 5,478,100 | 314,728 | — | 5,792,828 |
| Accumulated depreciation—buildings | 48,861,978 | 5,945,815 | 190,674 | 54,617,119 |
| Accumulated depreciation—equipment | 125,507,548 | 21,453,667 | 10,197,281 | 136,763,934 |
| Accumulated depreciation—vehicles | 76,161,767 | 13,824,717 | 3,783,495 | 86,202,989 |
| Accumulated depreciation—infrastructure | <u>17,002,114,178</u> | <u>730,217,511</u> | <u>70,460,293</u> | <u>17,661,871,396</u> |
| Total accumulated depreciation | <u>17,258,123,571</u> | <u>771,756,438</u> | <u>84,631,743</u> | <u>17,945,248,266</u> |
| Total depreciable capital assets, net | <u>19,915,465,725</u> | <u>51,698,043</u> | <u>1,595,286</u> | <u>19,965,568,482</u> |
| Total capital assets | <u>\$ 24,705,178,415</u> | <u>1,079,557,759</u> | <u>818,018,796</u> | <u>24,966,717,378</u> |

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

(7) Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2004 were as follows:

| Type of issue | Beginning balance, restated | Additions | Reductions | Discount accredited | Ending balance | Due within a year |
|-------------------------------------|-----------------------------|--------------------|--------------------|---------------------|-------------------------|--------------------|
| State road bonds | \$ 630,455,000 | 254,000,000 | 23,455,000 | — | 861,000,000 | 32,500,000 |
| State road bond accrued interest | 12,880,792 | 37,665,362 | 31,085,649 | — | 19,460,505 | 19,460,505 |
| Advances from other governments | 21,804,591 | 806,722 | 2,883,686 | — | 19,727,627 | 7,700,000 |
| Advances from component units | 64,532,918 | 9,416,665 | 13,991,327 | 563,000 | 60,521,256 | 9,753,965 |
| Component unit accrued interest | 79,636 | 197,847 | 277,483 | — | — | — |
| Federal Highway Administration loan | 15,000,000 | — | — | — | 15,000,000 | — |
| Capital leases | 22,982,191 | 3,311,624 | 9,072,440 | — | 17,221,375 | 7,690,567 |
| Claims and judgments payable | 27,487,109 | 2,660,038 | 8,006,809 | — | 22,140,338 | 4,428,067 |
| Compensated absences | 28,981,592 | 22,403,860 | 21,950,598 | — | 29,434,854 | 21,950,598 |
| | <u>\$ 824,203,829</u> | <u>330,462,118</u> | <u>110,722,992</u> | <u>563,000</u> | <u>1,044,505,955</u> | <u>103,483,702</u> |
| Add premium | | | | | <u>20,840,426</u> | |
| | | | | | <u>\$ 1,065,346,381</u> | |

The detail of long-term debt at June 30, 2004 follows:

| | |
|--|-----------------------|
| Series A 2000 State Road Fund bonds for the acceleration of projects in the Department's five-year plan due in annual installments of \$6,610,000 to \$20,315,000 beginning February 1, 2002; interest varying from 4.30% to 5.63% | \$ 225,965,000 |
| Series A 2001 State Road Fund bonds for financing of projects in conformity with the priorities established in the 1992 plan developed by the Department due in annual installments of \$7,110,000 to \$15,605,000 beginning February 1, 2003; interest varying from 2.25% to 5.125% | 185,470,000 |
| Series A 2002 State Road Fund bonds for financing of projects in conformity with the priorities established in the 1992 plan developed by the Department due in annual installments of \$7,435,000 to \$15,830,000 beginning February 1, 2004; interest varying from 3.00% to 5.25% | 195,565,000 |
| Series A 2003 State Road Fund bonds for financing of projects in conformity with the priorities established in the 1992 plan developed by the Department due in annual installments of \$8,125,000 to \$18,910,000 beginning February 1, 2005; interest varying from 2.00% to 5.00% | 254,000,000 |
| | <u>\$ 861,000,000</u> |

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

Advances from other governments:

| | |
|--|----------------------|
| County of St. Charles to provide for a location, needs, and cost study of a river crossing on Hwy. 40 between St. Louis County and St. Charles County; principal due on July 1, 2020; no interest will accrue | \$ 607,435 |
| County of St. Charles for the final design of Route 364, from west of Harvester Road to west of Central School Road; principal due on July 1, 2008; no interest will accrue | 674,166 |
| Missouri Development Finance Board to upgrade Route 40 and develop the Route DD and Route 40 interchange; principal due on August 1, 2004; no interest will accrue | 7,700,000 |
| City of O'Fallon to accelerate a portion of the Route 364 (Page Avenue Extension) project, which consists of constructing a south outer road parallel to Route N between Winghaven Blvd. to Missouri Rte. K; principal due July 1, 2015; no interest will accrue | 8,835,335 |
| City of Monett to make improvements to Route 60 in Barry County from 1.2 miles east of Route 37 to 1.8 miles east of Route 37; principal due in 2010; no interest will accrue | 1,120,691 |
| City of O'Fallon to extend Bryan Road from Feise Road to Route N across the Route 364 (Page Avenue Extension) right-of-way; principal due on December 31, 2008; no interest will accrue | <u>790,000</u> |
| | \$ <u>19,727,627</u> |

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

Advances from component units:

| | |
|---|-------------------|
| Highway 179 Transportation Corporation for the construction of Highway 179; principal payments due through August 1, 2008; principal payments range from \$2,140,734 to \$3,784,974 | \$ 15,223,625 |
| 210 Highway Transportation Development District for the widening of 210 Highway; principal payments begin July 2006 and conclude July 2007; principal payments range from \$965,504 to \$2,375,000; no interest will accrue | 6,622,686 |
| Springfield, Missouri State Highway Improvement Corporation for widening and improvements to the West Bypass; principal payments due through August 2005; principal payments range from \$3,667,000 to \$5,000,000; no interest will accrue | 8,667,000 |
| Fulton 54 Transportation Corporation for the right-of-way acquisition and utility adjustments for Route 54 and HH interchange; principal payments will occur on September 1, 2004, 2005, 2006, and 2007; no interest will accrue | 7,695,000 |
| Wentzville Parkway Transportation Corporation for the expansion and reconstruction of the I-70 interchange and Wentzville Parkway; principal payment due July 1, 2006; no interest will accrue | 8,849,812 |
| Missouri Transportation Finance Corporation for right-of-way and construction-related cost for two additional lanes on Highway 63; principal and interest payments will occur yearly July 1, 2004 through 2008; the interest rate is 3.232% | <u>13,463,133</u> |
| | \$ 60,521,256 |
| Federal Highway Administration loan; for the extension of Page Avenue in St. Charles; principal payment due as early as January 1, 2008; no interest will accrue | \$ 15,000,000 |

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

Capital lease obligations:

| | |
|--|---------------|
| 2001 lease-purchase of 10 copy machines, due in monthly installments of \$82 to \$4,212 through May 2006; interest varying from 0% to 18.9% | \$ 173,606 |
| 2002 lease-purchase of eight copy machines, due in monthly installments of \$138 to \$916 through February 2007; interest varying from 0% to 16.2% | 54,064 |
| 2002 lease-purchase of 475 dump trucks, due in annual installments of \$7,438,277 through June 2006; interest at 3.83% | 14,063,544 |
| 2003 lease-purchase of 15 copy machines, due in monthly installments varying from \$143 to \$439 through February 2008; interest varying from 0% to 9.6% | 97,645 |
| 2004 lease-purchase of 19 copy machines, due in monthly installments varying from \$44 to \$4,851 through December 2008; interest varying from 0% to 13.6% | 369,732 |
| 2004 lease-purchase of 11 wheel loaders, due in monthly installments of \$1,014 through May 2007; interest at 3.9% | 950,917 |
| 2004 lease-purchase of two topcon hiper survey equipment, due in monthly installments of \$1,793 through July 2005; interest at 0.325% | 51,891 |
| 2004 lease-purchase of 20 dump trucks, due in yearly installments varying from \$14,514 to \$20,960 through April 2008; interest at 3.8% | 1,298,007 |
| 2004 lease-purchase of bobcat, due in monthly installments of \$815 through May 2005; interest at 2.9% | 24,469 |
| 2004 lease-purchase of wheeled excavator, due in annual installments of \$29,912 through April 2009; interest at 2.9% | 137,500 |
| | \$ 17,221,375 |

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

Annual debt service requirements to maturity:

| Fiscal year | Principal due | Interest due | Total due |
|---|------------------------------|---------------------------|-----------------------------|
| State road bonds: | | | |
| 2005 | \$ 32,500,000 | 43,788,182 | 76,288,182 |
| 2006 | 35,440,000 | 40,537,032 | 75,977,032 |
| 2007 | 36,740,000 | 39,086,044 | 75,826,044 |
| 2008 – 2012 | 207,050,000 | 168,382,704 | 375,432,704 |
| 2013 – 2017 | 259,730,000 | 111,945,246 | 371,675,246 |
| 2018 – 2023 | 289,540,000 | 42,068,172 | 331,608,172 |
| | <u>\$ 861,000,000</u> | <u>445,807,380</u> | <u>1,306,807,380</u> |
| Advances from other governments: | | | |
| 2005 | \$ 7,700,000 | — | 7,700,000 |
| 2006 | — | — | — |
| 2007 | — | — | — |
| 2008 – 2012 | 2,584,857 | — | 2,584,857 |
| 2013 – 2017 | 8,835,335 | — | 8,835,335 |
| 2018 – 2022 | 607,435 | — | 607,435 |
| | <u>\$ 19,727,627</u> | <u>—</u> | <u>19,727,627</u> |
| Advances from component units: | | | |
| 2005 | \$ 9,753,965 | 485,720 | 10,239,685 |
| 2006 | 14,249,782 | 403,117 | 14,652,899 |
| 2007 | 21,981,694 | 314,936 | 22,296,630 |
| 2008 – 2012 | 14,535,815 | 341,672 | 14,877,487 |
| | <u>\$ 60,521,256</u> | <u>1,545,445</u> | <u>62,066,701</u> |
| Capital leases: | | | |
| 2005 | \$ 7,690,567 | 660,477 | 8,351,044 |
| 2006 | 7,815,083 | 360,040 | 8,175,123 |
| 2007 | 1,200,263 | 60,294 | 1,260,557 |
| 2008 | 445,337 | 18,086 | 463,423 |
| 2009 – 2013 | 70,125 | 1,383 | 71,508 |
| | <u>\$ 17,221,375</u> | <u>1,100,280</u> | <u>18,321,655</u> |

On May 30, 2000, the governor signed House Bill 1742, which permits the General Assembly to authorize the Commission to issue up to \$2 billion in bonds in fiscal years 2001 to 2006. No more than \$500 million may be issued in any one year.

The Missouri Highway and Transportation Commission entered into a line-of-credit loan with the Missouri Transportation Finance Corporation (MTFC) on December 15, 2003. The amount of the line-of-credit available is up to the maximum available amount of the total uncommitted balance of the MTFC accounts. The purpose of the loan is to finance federally funded construction projects in the event of federal

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

reimbursement delays for State Road Fund projects. The Commission will make a lump-sum payment of principal and interest three months after the loan is advanced. At June 30, 2004, no advances had been made to MoDOT on the line-of-credit agreement.

(8) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Various lawsuits against the Department arise incident to the Department's normal operations. These include workers' compensation, vehicle liability, general liability, inverse condemnation, and contractor suits. It is the policy of the Department not to purchase commercial insurance, but to manage its risks internally by setting aside assets for the settlement of certain claims in its internal service fund, the Self-Insurance Fund. The Self-Insurance Fund services claims for workers' compensation, vehicle liability, and general liability. Per Section 537.610, RSMo, the liability of the State and its public entities on claims within the scope of Sections 537.600 to 537.650 shall not exceed \$2,186,741 for all claims arising out of a single accident or occurrence and shall not exceed \$328,011 for any one person in a single accident or occurrence, as established by the Missouri Department of Insurance, except for those claims governed by the provisions of the Missouri Workers' Compensation Law, Chapter 287 RSMo.

| | Beginning of fiscal year liability | Current claims and estimate changes | Claim payments | Balance at fiscal year-end |
|------|---|--|---------------------------|---------------------------------------|
| 2004 | \$ 11,702,000 | 14,442,324 | 12,552,324 | 13,592,000 |
| 2003 | 11,305,546 | 14,659,671 | 14,263,217 | 11,702,000 |

Liabilities for incurred losses related to workers' compensation and general and vehicle liability claims are reported at their discounted value, assuming an investment yield of 4%.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Estimated claims payable represents the Department's determination of the expected losses to be realized on known claims pending. Department personnel estimate the claims liability based on prior claims experience. Estimated unreported claims represent expected losses or claims incurred but not reported. The unreported claims liability is established from data provided by an actuary.

Inverse condemnation and contractor suits are paid from the State Road Fund. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As discussed in note 7, the Department has approximately \$22,140,000 in claims and judgments payable related to inverse condemnation and contractor suits.

(9) Insurance Plan

The Highway Employees' and Highway Patrol Insurance Plan (the Medical and Life Plan) internal service fund accounts for the medical coverage provided on a self-insured basis and life insurance benefits, underwritten by a commercial insurance company, for Department employees and members of the Missouri State Highway Patrol. Changes to the plan are required to be approved by the Commission.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

Incurred but not reported claims of \$8,250,000 are reported in the Medical and Life Plan as of June 30, 2004. These medical and prescription drug reserves are estimated based upon lag reports using an 18-month run-off.

| | Beginning of fiscal year liability | Current claims and estimate changes | Claim payments | Balance at fiscal year-end |
|------|---|--|---------------------------|---------------------------------------|
| 2004 | \$ 8,866,000 | 60,672,542 | 61,288,542 | 8,250,000 |
| 2003 | 9,200,000 | 57,108,724 | 57,442,724 | 8,866,000 |

(10) Defined Benefit Pension Plan

The Highway and Transportation Employees' and Highway Patrol Retirement System (the Retirement System) was established and is administered by a board of trustees in accordance with the Revised Statutes of Missouri. The Retirement System is a single-employer, defined-benefit, public-employee, retirement system of the State.

As the plan includes employees outside of the Department, the Retirement System is disclosed in accordance with the requirements of a cost-sharing, multiemployer, public-employee retirement plan. The Retirement System provides retirement, death, and disability benefits to full-time employees (defined as at least 1,000 hours to be worked annually) with benefits vesting after five years of creditable service. Contributions to the Retirement System are 25.54% of covered payroll. The Department made the required contributions of \$59,737,271, \$52,497,099, and \$53,575,901 in 2004, 2003, and 2002, respectively. Any amendments to the plan are established by State law and the Retirement System board of trustees.

Employees do not contribute to the Retirement System. The Retirement System's funding policy provides for actuarially determined employer contributions using the entry-age normal cost method on a closed group basis (consisting of normal cost and amortization of any unfunded accrued liabilities over a 33-year period). Actuarially determined rates, expressed as percentages of annual covered payroll, provide for amounts sufficient to fund those benefits designated by State statute to be funded in advance. Contributions for the special consultant fees are funded on an actuarial basis.

The Retirement System issues its own stand-alone financial report. Copies may be requested from:

Highway and Transportation Employees' and
Highway Patrol Retirement System
P.O. Box 1930
Jefferson City, Missouri 65102

(11) Commitments and Contingencies

(a) Unemployment Benefits

The Department is subject to the Missouri Employment Security Law. Department employees who qualify are entitled to benefit payments during periods of unemployment. The Department is required to reimburse the Division of Employment Security for benefit payments made to its former employees. The Department has identified no practical method of estimating the amount of future

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

benefit payments that may be made to former employees for wage credits earned prior to June 30, 2004. Consequently, this potential obligation is not included in the accompanying basic financial statements. Total reimbursements made by the Department during the fiscal year were \$565,747.

(b) Construction Commitments

Construction awards outstanding for both state and federally participating projects at June 30, 2004 amounted to approximately \$682,959,832. The federal portion of this total was approximately \$501,099,450, or 73.3%.

(c) Federal Funding

The Department receives federal grants that are subject to review and audit by federal grantor agencies. This could result in requests for reimbursements to the grantor agency for any expenditures that are disallowed under grant terms. The Department believes that such disallowances, if any, would be immaterial.

(d) Operating Leases

The Department is committed under leases for buildings, as well as various office and maintenance equipment. Rental expenditures for the year ended June 30, 2004 amounted to \$4,588,559. Future minimum lease payments for these leases are as follows:

| Year ending: | |
|---------------|--------------|
| 2005 | \$ 1,694,962 |
| 2006 | 1,108,114 |
| 2007 | 124,188 |
| 2008 | 30,957 |
| 2009 – future | 25,337 |
| | <hr/> |
| | \$ 2,983,558 |

(e) Hancock Amendment

The Missouri Constitution bars the general assembly from imposing taxes that, together with all other revenues of the state, excluding federal funds, exceed a specified revenue limit. The revenue limit is calculated by dividing total state revenues by the personal income of Missouri in 1979 multiplied by the personal income of Missouri in either the calendar year prior to the calendar year in which appropriations for the fiscal year for which the calculation is being made or the average of personal income of Missouri in the previous three calendar years, whichever is greater. In the event total state revenues exceed the revenue limit by 1% or more, excess revenues are refunded to taxpayers. As of June 30, 2004, no liability has been accrued for these refunds as total state revenues are not expected to exceed the revenue limit.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

(12) Restatements

Effective July 1, 2003, the Division of Highway Safety, formerly a part of the Department of Public Safety was combined into MoDOT. This change was part of the Governor's Reorganization Plan of 2003. The effect of this consolidation was an increase to fund balance in the governmental funds as of June 30, 2003 as follows:

| | Governmental activities | Nonmajor governmental funds |
|---|---------------------------------|------------------------------------|
| Net assets/fund balance at June 30, 2003, as previously reported | \$ 24,395,146,180 | 11,692,202 |
| Addition of programs from other state agencies | <u>779,964</u> | <u>791,576</u> |
| Net assets/fund balance at June 30, 2003, as restated | <u><u>\$ 24,395,926,144</u></u> | <u><u>12,483,778</u></u> |

Schedule 1

MISSOURI DEPARTMENT OF TRANSPORTATION

State Highways and Transportation Department Fund

Required Supplementary Information—Budgetary Comparison Schedule

Year ended June 30, 2004

| | Budgeted amounts | | | Variance between final budget and actual |
|--|-------------------------|--------------------|--------------------|---|
| | Original | Final | Actual | |
| Budgetary fund balance, July 1, 2003 | \$ 31,067,324 | 31,067,324 | 31,067,324 | — |
| Resources (inflows): | | | | |
| Fuel taxes | 482,499,000 | 502,087,000 | 511,599,016 | 9,512,016 |
| Vehicle sales and use taxes | 42,935,000 | 40,540,000 | 43,580,885 | 3,040,885 |
| Licenses, fees, and permits | 175,223,000 | 171,908,000 | 162,941,036 | (8,966,964) |
| Investment and interest | 3,292,000 | 1,910,000 | 1,318,857 | (591,143) |
| Intergovernmental/cost reimbursements/misc. | 1,737,000 | 1,967,000 | 2,542,631 | 575,631 |
| Amount available for appropriation | <u>736,753,324</u> | <u>749,479,324</u> | <u>753,049,749</u> | <u>3,570,425</u> |
| Charges to appropriations (outflows): | | | | |
| Administration: | | | | |
| Personal service | 19,217,346 | 19,229,710 | 17,883,184 | 1,346,526 |
| Fringe | 18,804,097 | 18,807,511 | 17,489,218 | 1,318,293 |
| Expense and equipment | 6,731,171 | 6,033,164 | 5,159,588 | 873,576 |
| Maintenance: | | | | |
| Personal service | 128,642,161 | 128,803,160 | 125,485,834 | 3,317,326 |
| Fringe | 68,741,191 | 68,578,831 | 67,768,671 | 810,160 |
| Expense and equipment | 1,324,502 | 1,324,340 | 645,519 | 678,821 |
| Construction: | | | | |
| Personal service | 81,576,170 | 81,674,704 | 78,581,927 | 3,092,777 |
| Fringe | 41,971,910 | 42,338,951 | 39,565,343 | 2,773,608 |
| Fleet, facilities, and information systems: | | | | |
| Personal service | 14,724,408 | 14,681,135 | 13,830,560 | 850,575 |
| Fringe | 7,686,627 | 7,750,003 | 7,258,482 | 491,521 |
| Expense and equipment | 352,115 | 352,115 | 201,789 | 150,326 |
| Multimodal operations: | | | | |
| Personal service | 163,675 | 163,675 | 137,931 | 25,744 |
| Fringe | 93,113 | 93,113 | 81,398 | 11,715 |
| Motorist assist: | | | | |
| Personal service | 1,857,662 | 1,799,703 | 1,746,919 | 52,784 |
| Fringe | 793,622 | 793,622 | 774,011 | 19,611 |
| Appropriations spent by other state agencies | <u>193,354,045</u> | <u>194,772,544</u> | <u>180,513,739</u> | <u>14,258,805</u> |
| Total charges to appropriations | <u>586,033,815</u> | <u>587,196,281</u> | <u>557,124,113</u> | <u>30,072,168</u> |
| Transfers to State Road Fund | <u>121,886,378</u> | <u>112,363,336</u> | <u>166,206,147</u> | |
| Budgetary fund balance, June 30, 2004 | \$ <u>28,833,131</u> | <u>49,919,707</u> | <u>29,719,489</u> | |

See accompanying independent auditors' report.

Schedule 2

MISSOURI DEPARTMENT OF TRANSPORTATION

State Road Fund

Required Supplementary Information—Budgetary Comparison Schedule

Year ended June 30, 2004

| | Budgeted amounts | | | Variance between final budget and actual |
|---|-------------------------|----------------------|----------------------|---|
| | Original | Final | Actual | |
| Budgetary fund balance, July 1, 2003 | \$ 362,604,406 | 362,604,406 | 362,604,406 | — |
| Resources (inflows): | | | | |
| Fuel taxes | 87,000 | 84,000 | 93,168 | 9,168 |
| Vehicle sales and use taxes | 151,083,000 | 132,358,000 | 134,160,201 | 1,802,201 |
| Licenses, fees, and permits | 90,412,000 | 88,697,000 | 98,970,917 | 10,273,917 |
| Investment and interest | 8,708,000 | 8,090,000 | 5,543,941 | (2,546,059) |
| Intergovernmental/cost reimbursements/miscellaneous | 80,263,000 | 95,033,000 | 89,610,780 | (5,422,220) |
| Federal government | 554,828,000 | 715,904,000 | 679,652,903 | (36,251,097) |
| Bond sales proceeds | 254,000,000 | 262,722,000 | 262,739,005 | 17,005 |
| Amount available for appropriation | <u>1,501,985,406</u> | <u>1,665,492,406</u> | <u>1,633,375,321</u> | <u>(32,117,085)</u> |
| Charges to appropriations (outflows): | | | | |
| Maintenance/preservation: | | | | |
| Expense and equipment | 147,886,907 | 153,521,995 | 141,629,975 | 11,892,020 |
| Construction: | | | | |
| Expense and equipment | 29,916,336 | 32,479,828 | 23,546,053 | 8,933,775 |
| Contracts | 954,350,000 | 1,060,639,479 | 1,053,268,137 | 7,371,342 |
| ROW purchases | 35,000,000 | 65,000,000 | 52,580,755 | 12,419,245 |
| Fleet, facilities, and information systems | | | | |
| Expense and equipment | 81,977,354 | 105,604,043 | 83,839,621 | 21,764,422 |
| Multimodal operations: | | | | |
| Expense and equipment | 15,000 | 15,000 | 8,539 | 6,461 |
| Bond principal and interest payments | 58,537,648 | 54,540,649 | 54,540,649 | — |
| Motorist assist: | | | | |
| Expense and equipment | <u>328,493</u> | <u>317,129</u> | <u>293,849</u> | <u>23,280</u> |
| Total charges to appropriations | <u>1,308,011,738</u> | <u>1,472,118,123</u> | <u>1,409,707,578</u> | <u>62,410,545</u> |
| Transfers from Highway Fund | <u>121,886,378</u> | <u>112,363,336</u> | <u>166,206,147</u> | |
| Budgetary fund balance, June 30, 2004 | <u>\$ 315,860,046</u> | <u>305,737,619</u> | <u>389,873,890</u> | |

See accompanying independent auditors' report.

MISSOURI DEPARTMENT OF TRANSPORTATION

Required Supplementary Information—Budget Basis to GAAP Reconciliation and Disclosure
Year ended June 30, 2004

The following is a reconciliation of the difference between the Department's fund balance presented on a budgetary basis and accounting principles generally accepted in the United States of America (GAAP) basis:

| | State Highways and Transportation Department Fund | State Road Fund |
|------------------------------------|--|--------------------------------|
| Fund balance, budgetary basis | \$ 29,719,489 | 389,873,890 |
| Receivables | 104,384,022 | 84,260,424 |
| Due from other funds | — | 221,329 |
| Inventories | 126,231 | 30,450,527 |
| Accounts payable | (23,189,166) | (74,453,434) |
| Retainages payable | — | (4,796,531) |
| Deferred revenues | — | (39,475,640) |
| Investment market value adjustment | 440,879 | 5,393,420 |
| Fund balance, GAAP basis | <u><u>\$ 111,481,455</u></u> | <u><u>391,473,985</u></u> |

Budgetary Principles and Presentation

The budgetary comparison schedules are presented on the Department's budgetary basis of accounting. Under this basis, revenues are recognized when cash is received. Expenditures are recognized for cash disbursements made during the fiscal year and for adjustments made in the lapse period, as defined by the Office of Administration.

The legal authority for approval of the Department's budget and amendments for all funds, except the State Road Fund, rests with the state legislature. The budgeted amounts lapse at the end of the lapse period. Approval of the State Road Fund budget and amendments is given by the Commission. The fund level is the legal level of control for the State Road Fund.

The Department develops its budget through processes involving each of its 10 districts and the Central Office business units. Upon Commission approval, the legislative budget request is sent to the Office of Administration (OA) on October 1st which, in turn, is forwarded to the governor's office. The governor develops a recommendation regarding the budget and forwards both the budget request and the recommendation to the legislature. The legislature generally acts on budget matters during January through May. The governor has veto authority and generally acts on those matters in June. The Department distributes funds available internally based on district and the Central Office units' input and feedback. This is then submitted to the Commission for approval.

See accompanying independent auditors' report.

MISSOURI DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet—Nonmajor Governmental Funds

June 30, 2004

| | General Revenue and MO Federal Fund | State Transportation Fund | Aviation Trust Fund | State Transportation Assistance Revolving Fund | MCSAP Division Transportation Federal Fund | Grade Crossing Safety Fund | Railroad Expense Fund | Light Rail Safety Fund | Highway Safety Fund | Motorcycle Safety Fund | Total |
|---|--|---------------------------------|---------------------------|--|--|-------------------------------------|-----------------------------|---------------------------------|---------------------------|------------------------------|-------------------|
| Assets | | | | | | | | | | | |
| Cash and investments | \$ 649,430 | 273,495 | 2,775,132 | 521,961 | 214,037 | 4,856,618 | 97,779 | — | 550,989 | 166,303 | 10,105,744 |
| Miscellaneous receivables | 16,080 | — | 6,969 | 8,406 | — | — | 30,949 | — | 26,380 | — | 88,784 |
| Due from federal government | 3,231,252 | — | — | — | 147,461 | — | — | — | 742,067 | — | 4,120,780 |
| Taxes receivable | — | 148,774 | 259,019 | — | — | — | — | — | — | — | 407,793 |
| Loans receivable | — | — | — | 2,499,674 | — | — | — | — | — | — | 2,499,674 |
| Total assets | \$ 3,896,762 | 422,269 | 3,041,120 | 3,030,041 | 361,498 | 4,856,618 | 128,728 | — | 1,319,436 | 166,303 | 17,222,775 |
| Liabilities and Fund Equity | | | | | | | | | | | |
| Vouchers payable | \$ 3,237,239 | 2,477 | 43,313 | — | 142,560 | 141,804 | 14,915 | — | 649,950 | — | 4,232,258 |
| Deferred revenue | 14,680 | — | — | — | — | — | — | — | — | — | 14,680 |
| Due to other funds | 20,731 | 1,190 | 9,401 | — | — | — | 14,933 | — | — | — | 46,255 |
| Total liabilities | 3,272,650 | 3,667 | 52,714 | — | 142,560 | 141,804 | 29,848 | — | 649,950 | — | 4,293,193 |
| Fund Balance | | | | | | | | | | | |
| Reserve for loans receivable | — | — | — | 2,499,674 | — | — | — | — | — | — | 2,499,674 |
| Unreserved fund balance | 624,112 | 418,602 | 2,988,406 | 530,367 | 218,938 | 4,714,814 | 98,880 | — | 669,486 | 166,303 | 10,429,908 |
| Total fund balance | 624,112 | 418,602 | 2,988,406 | 3,030,041 | 218,938 | 4,714,814 | 98,880 | — | 669,486 | 166,303 | 12,929,582 |
| Total liabilities and fund balance | \$ 3,896,762 | 422,269 | 3,041,120 | 3,030,041 | 361,498 | 4,856,618 | 128,728 | — | 1,319,436 | 166,303 | 17,222,775 |

See accompanying independent auditors' report.

MISSOURI DEPARTMENT OF TRANSPORTATION
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—
 Nonmajor Governmental Funds
 Year ended June 30, 2004

| | General Revenue and MO Federal Fund | State Transportation Fund | Aviation Trust Fund | State Transportation Assistance Revolving Fund | MCSAP Division Transportation Federal Fund | Grade Crossing Safety Fund | Railroad Expense Fund | Light Rail Safety Fund | Highway Safety Fund | Motorcycle Safety Fund | Total |
|--|--|----------------------------------|----------------------------|---|---|-----------------------------------|------------------------------|-------------------------------|----------------------------|-------------------------------|-------------------|
| Revenues: | | | | | | | | | | | |
| Fuel tax | \$ — | — | 365,623 | — | — | — | — | — | — | — | 365,623 |
| Sales and use tax | — | 1,652,978 | 2,235,390 | — | — | — | — | — | — | — | 3,888,368 |
| License, fees, and permits | — | — | — | — | — | — | — | — | — | — | 1,865,322 |
| Intergovernmental/cost reimbursements/miscellaneous | 1,391,632 | — | — | — | — | 1,492 | — | — | — | — | 1,393,124 |
| Investment and interest | — | — | 39,290 | 91,513 | — | — | — | — | — | 326,144 | 456,947 |
| Federal government | 28,544,513 | — | — | — | 1,645,261 | — | — | — | 12,860,057 | — | 43,049,831 |
| Total revenues | <u>29,936,145</u> | <u>1,652,978</u> | <u>2,640,303</u> | <u>91,513</u> | <u>1,645,261</u> | <u>1,217,482</u> | <u>649,332</u> | <u>—</u> | <u>12,860,057</u> | <u>326,144</u> | <u>51,019,215</u> |
| Expenditures: | | | | | | | | | | | |
| Multimodal operations | 37,161,371 | 5,416,681 | 2,145,890 | — | — | 1,308,112 | 736,572 | — | — | — | 46,768,626 |
| Maintenance | — | — | — | — | 1,645,106 | — | — | — | 12,860,057 | 281,918 | 14,787,081 |
| Other state agency | — | — | 50,609 | 22,630 | — | 19,699 | 15,156 | — | — | 13 | 108,107 |
| Total expenditures | <u>37,161,371</u> | <u>5,416,681</u> | <u>2,196,499</u> | <u>22,630</u> | <u>1,645,106</u> | <u>1,327,811</u> | <u>751,728</u> | <u>—</u> | <u>12,860,057</u> | <u>281,931</u> | <u>61,663,814</u> |
| Excess of revenues (under) over expenditures | (7,225,226) | (3,763,703) | 443,804 | 68,883 | 155 | (110,329) | (102,396) | — | — | 44,213 | (10,644,599) |
| Other financing sources: | | | | | | | | | | | |
| Net decrease in fair value of investments | — | — | (180,961) | (27,351) | — | — | — | — | — | — | (208,312) |
| Transfers related to appropriations | 7,646,094 | 3,652,621 | — | — | — | — | — | — | — | — | 11,298,715 |
| Excess of revenues and other financing sources over (under) expenditures | 420,868 | (111,082) | 262,843 | 41,532 | 155 | (110,329) | (102,396) | — | — | 44,213 | 445,804 |
| Fund balance, beginning of year, as restated | <u>203,244</u> | <u>529,684</u> | <u>2,725,563</u> | <u>2,988,509</u> | <u>218,783</u> | <u>4,825,143</u> | <u>201,276</u> | <u>—</u> | <u>669,486</u> | <u>122,090</u> | <u>12,483,778</u> |
| Fund balance, end of year | <u>\$ 624,112</u> | <u>418,602</u> | <u>2,988,406</u> | <u>3,030,041</u> | <u>218,938</u> | <u>4,714,814</u> | <u>98,880</u> | <u>—</u> | <u>669,486</u> | <u>166,303</u> | <u>12,929,582</u> |

See accompanying independent auditors' report.

MISSOURI DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet—All Internal Service Funds

June 30, 2004

| | Highway Employees' and Highway Patrol Insurance Plan | Self- insurance | Total |
|---|---|----------------------------|-------------------|
| Assets | | | |
| Cash | \$ 13,870,242 | — | 13,870,242 |
| Investments | 11,924,640 | 36,863,530 | 48,788,170 |
| Miscellaneous receivables | 23,432 | 214,567 | 237,999 |
| Total assets | \$ 25,818,314 | 37,078,097 | 62,896,411 |
| Liabilities and Net Assets | | | |
| Liabilities: | | | |
| Vouchers payable | \$ 1,412,870 | 272,752 | 1,685,622 |
| Pending self-insurance claims | — | 26,355,945 | 26,355,945 |
| Deferred revenue | 6,223,848 | — | 6,223,848 |
| Incurred but not reported claims | 8,250,000 | 13,592,000 | 21,842,000 |
| Total liabilities | 15,886,718 | 40,220,697 | 56,107,415 |
| Net assets unrestricted (accumulated deficit) | 9,931,596 | (3,142,600) | 6,788,996 |
| Total liabilities and net assets | \$ 25,818,314 | 37,078,097 | 62,896,411 |

See accompanying independent auditors' report.

Schedule 6

MISSOURI DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenses, and Changes
in Net Assets (Accumulated Deficit)—All Internal Service Funds

Year ended June 30, 2004

| | Highway Employees' and Highway Patrol Insurance Plan | Self- insurance | Total |
|---|---|----------------------------|--------------------|
| Operating revenues: | | | |
| Insurance premiums: | | | |
| Highway workers' compensation | \$ — | 10,783,137 | 10,783,137 |
| Highway patrol workers' compensation | — | 1,185,000 | 1,185,000 |
| Highway fleet vehicle liability | — | 1,880,883 | 1,880,883 |
| General liability | — | 3,510,572 | 3,510,572 |
| Contributions: | | | |
| State | 53,748,827 | — | 53,748,827 |
| Member | 23,908,942 | — | 23,908,942 |
| Other | 825,231 | 788,896 | 1,614,127 |
| Total operating revenues | <u>78,483,000</u> | <u>18,148,488</u> | <u>96,631,488</u> |
| Operating expenses: | | | |
| Program | — | 1,473,913 | 1,473,913 |
| Self-insurance claims: | | | |
| Highway workers' compensation | — | 7,726,798 | 7,726,798 |
| Highway patrol workers' compensation | — | 2,089,349 | 2,089,349 |
| Highway fleet vehicle liability | — | 998,343 | 998,343 |
| Highway general liability | — | 3,627,834 | 3,627,834 |
| Medical and life: | | | |
| Insurance premium | 5,136,810 | — | 5,136,810 |
| Claims | 48,030,945 | — | 48,030,945 |
| Administrative service | 2,194,469 | — | 2,194,469 |
| Prescription drugs | 12,641,598 | — | 12,641,598 |
| Professional fees | 131,404 | — | 131,404 |
| Other | 58,293 | — | 58,293 |
| Total operating expenses | <u>68,193,519</u> | <u>15,916,237</u> | <u>84,109,756</u> |
| Operating income | <u>10,289,481</u> | <u>2,232,251</u> | <u>12,521,732</u> |
| Nonoperating revenues: | | | |
| Interest income | 211,893 | 895,761 | 1,107,654 |
| Net decrease in fair value of investments | (14,154) | (988,751) | (1,002,905) |
| Total nonoperating revenues (loss) | <u>197,739</u> | <u>(92,990)</u> | <u>104,749</u> |
| Net income | 10,487,220 | 2,139,261 | 12,626,481 |
| Net assets (accumulated deficit) at beginning of year | <u>(555,624)</u> | <u>(5,281,861)</u> | <u>(5,837,485)</u> |
| Net assets (accumulated deficit) at end of year | <u>\$ 9,931,596</u> | <u>(3,142,600)</u> | <u>6,788,996</u> |

See accompanying independent auditors' report.

MISSOURI DEPARTMENT OF TRANSPORTATION

Combining Statement of Cash Flows—All Internal Service Funds

Year ended June 30, 2004

| | Highway Employees' and Highway Patrol Insurance Plan | Self- insurance | Totals |
|---|---|----------------------------|---------------------|
| Cash flows from operations: | | | |
| Receipts from customers | \$ 78,474,460 | 18,088,093 | 96,562,553 |
| Payment to suppliers | (67,629,711) | (13,102,879) | (80,732,590) |
| Net cash provided by operating activities | <u>10,844,749</u> | <u>4,985,214</u> | <u>15,829,963</u> |
| Cash flows from investing activities: | | | |
| Sale of investments | — | 23,750,500 | 23,750,500 |
| Purchase of investments | (11,938,794) | (30,225,572) | (42,164,366) |
| Interest on investments | 211,893 | 895,761 | 1,107,654 |
| Net cash used in investing activities | <u>(11,726,901)</u> | <u>(5,579,311)</u> | <u>(17,306,212)</u> |
| Net decrease in cash | (882,152) | (594,097) | (1,476,249) |
| Cash at beginning of year | <u>14,752,394</u> | <u>594,097</u> | <u>15,346,491</u> |
| Cash at end of year | <u>\$ 13,870,242</u> | <u>—</u> | <u>13,870,242</u> |
| Cash flows from operating activities: | | | |
| Operating income | \$ 10,289,481 | 2,232,251 | 12,521,732 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Decrease in receivables | (8,541) | (60,395) | (68,936) |
| Increase (decrease) in accounts payable | (335,516) | 2,813,358 | 2,477,842 |
| Increase in deferred revenue | 899,325 | — | 899,325 |
| Net cash provided by operating activities | <u>\$ 10,844,749</u> | <u>4,985,214</u> | <u>15,829,963</u> |
| Noncash items impacting recorded assets: | | | |
| Decline in fair value of investments | \$ (14,154) | (988,750) | (1,002,904) |

See accompanying independent auditors' report.

Schedule 8**MISSOURI DEPARTMENT OF TRANSPORTATION**

Combining Balance Sheet—All Fiduciary Funds

June 30, 2004

| Assets | Local fund | Base State Registration Fund | International Fuel Tax Agreement Fund | International Fuel Tax Agreement Bond Fund | International Registration Plan Fund | Total |
|-----------------------------------|----------------------|-------------------------------------|--|---|---|-------------------|
| Cash and cash equivalents | \$ 12,289,122 | 123,000 | 1,913,000 | 27,000 | — | 14,352,122 |
| Investments | 9,829,525 | 17 | 889,000 | 192,000 | 2,440,000 | 13,350,542 |
| Other | 39,658 | — | 5,000 | — | 2,000 | 46,658 |
| Total assets | \$ 22,158,305 | 123,017 | 2,807,000 | 219,000 | 2,442,000 | 27,749,322 |
| Liabilities and Net Assets | | | | | | |
| Liabilities: | | | | | | |
| Due to other governments | \$ — | 123,017 | 2,806,000 | 219,000 | 2,442,000 | 5,590,017 |
| Advances from other governments | 22,158,305 | — | — | — | — | 22,158,305 |
| Other | — | — | 1,000 | — | — | 1,000 |
| Total liabilities | \$ 22,158,305 | 123,017 | 2,807,000 | 219,000 | 2,442,000 | 27,749,322 |

See accompanying independent auditors' report.